

Message Text

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TO SECSTATE WASHDC 3244

INFO USMISSION OECD PARIS

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AMCONSUL ZAGREB

C O N F I D E N T I A L SECTION 1 OF 2 BELGRADE 3236

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E.O. 11652: GDS

TAGS: ECON, ETRD, EGEN, EEC, EALR, YO

SUBJ: YUGOSLAV EEC PROBLEMS

1. SUMMARY: IN WAKE OF CONTINUED DETERIORATION OF YUGOSLAV EXPORTS TO EEC COUNTRIES AND LACK OF PROGRESS TOWARD MEANINGFUL RELAXATION EEC RESTRICTIONS ON BEEF IMPORTS, YUGOSLAVIA IS REPORTEDLY MOUNTING FURTHER INTENSIVE DIPLOMATIC EFFORTS TO STEM OR REVERSE DECLINE IN TRADE BALANCE. IN DISCUSSIONS WITH EMBASSY OFFICERS, YUGOSLAV OFFICIALS ARE INCREASINGLY SHARP IN COMMENTS REGARDING EEC TRADE POLICY, AND GOVERNOR OF NATIONAL BANK AT ONE POINT STRESSED "THOSE WHO WILL NOT TRADE WITH US HAVE NO RIGHT TO CRITICIZE OR EVEN COMMENT WHEN WE DEVELOP CLOSER RELATIONS WITH EAST." YUGOSLAVS CLEARLY HOPE EXPANDED TRADE RELATIONS WITH US WILL PICK UP PART OF SLACK IN EVENT RELATIONS WITH EEC DO NOT IMPROVE. IT IS EMBASSY'S IMPRESSION THAT THIS SERIOUS ECONOMIC PROBLEM IS BECOMING POSSIBLE MAJOR POLITICAL ISSUE WITH SIGNICANT POLITICAL IMPLICATIONS FOR US INTERESTS IF YUGOSLAVIA IS FORCED TO INCREASINGLY TURN TO EAST AS SECOND BEST EXPORT MARKET AND SOURCE OF CREDIT.

END SUMMARY

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2. ACCORDING TO COMMENTS BY SENIOR YUGOSLAV ECONOMIC OFFICIALS, UNOFFICIAL DATA FOR FIVE MONTHS SHOW A CONTINUED DETERIORATION IN YUGOSLAV TRADE BALANCE WITH EEC COUNTRIES, ESPECIALLY GERMANY AND ITALY. OFFICIAL DATA FOR FOUR MONTHS SHOW VALUE YUGOSLAV EXPORTS ITALY AT \$118.5 MILLION WITH YUGOSLAV IMPORT VALUE AT \$321.8 MILLION AND YUGOSLAV EXPORTS TO GERMANY AT \$110.4 MILLION AND YUGOSLAV IMPORTS AT \$485.7 MILLION. YUGOSLAV SENSITIVITY TO EXPORT SITUATION HAS REACHED POINT WHERE THEY NO LONGER EVEN LISTEN POLITELY TO ARGUMENTS THAT WHEN INVISIBLE EARNINGS FROM WESTERN EUROPEAN SOURCES THROUGH WORKERS' REMITTANCES AND TOURISM ARE PUT INTO EQUATION, YUGOSLAVIA DOES NOT SUFFER IN OVERALL BALANCE.

3. YUGOSLAVS BELIEVE SLACK DEMAND IN RECESSIONARY MARKETS IN WESTERN EUROPE IS RESPONSIBLE FOR PART OF DETERIORATION, BUT DISCRIMINATORY TRADE POLICIES OF EEC AND/OR MEMBER COUNTRIES ALSO SHARE BLAME. EEC BAN ON BEEF IMPORT IS ALWAYS SPECIFIED AS EXAMPLE OF DISCRIMINATION AND IN LAST WEEKS HAS BEEN DESCRIBED TO AMERICAN VISITOR (EXIM BANK VICE PRES ALBRIGHT) AS: "CRUEL" AND "BRUTAL" BY YUGOSLAV LEADERS SUCH AS GOVERNOR OF NATIONAL BANK COLANOVIC AND FINANCE SECRETARY CEMOVIC. COLANOVIC CLAIMED YUGOSLAVIA HAS NOW LOST OVER \$200 MILLION IN HARD CURRENCY EARNINGS AS DIRECT RESULT OF BAN AND THAT DOMESTIC LIVESTOCK INDUSTRY IS BEING RUINED BY LOSS OF ITS PRIMARY MARKET. OTHER RESTRICTIVE POLICIES INCLUDING ATTEMPTED RESERVATION OF GSP TO FOURTH WORLD COUNTRIES AND EXCLUSION OF YUGOSLAVIA FROM THESE BENEFITS ARE ALSO CITED IN YUGOSLAV CASE AGAINST EEC.

4. ASSISTANT SECRETARY FOREIGN AFFAIRS VRHUNEC TOLD EMBOFFS YUGOSLAVIA HAS RECENTLY SENT ALL EEC COUNTRIES A CIRCULAR NOTE OUTLINING YUGOSLAVIA'S PROBLEMS AND REQUESTED THOSE GOVTS TO RECONSIDER THEIR POSSIBILITIES FOR ENCOURAGING YUGOSLAV IMPORTS. VRHUNEC SAID YUGOSLAVIA EXPECTS EEC COUNTRIES TO HELP YUGOSLAVIA AND ESPECIALLY TO DO AWAY WITH RESTRICTIONS HARMFUL TO YUGOSLAV EXPORTS. HE SAID "WE ASK FOR POLITICAL GOOD-CONFIDENTIAL

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WILL, WE WANT GOOD POLITICAL RELATIONS WITH EEC." IF YUGOSLAV EXPORTS DO NOT PICK UP, VRHUNEC SAID "WE MUST CUT IMPORTS FROM EEC" WHICH IN ADDITION TO AGGRAVATING OVERALL RELATIONS WITH EEC MAY CONSTRAIN YUGOSLAVIA'S DEVELOPMENTS GOALS CAUSING ECONOMIC AND SOCIAL PROBLEMS IN YUGOSLAVIA. HE EMPHASIZED YUGOSLAVIA WANTS TO MAINTAIN GOOD ECONOMIC AND POLITICAL RELATIONS WITH EEC BUT ADDED, "IT IS NOT ONLY UP TO US."

5. GOVERNOR OF NATIONAL BANK COLANOVIC PROVIDED EMBASSY OFFICER WITH SHARP CRITIQUE OF YUGOSLAV/EEC RELATIONS. ACCORDING TO COLANOVIC, YUGOSLAVIA IS UNDERTAKING INTENSIVE DIPLOMATIC ACTIVITIES TO REVERSE THE DETERIORATION OF YUGOSLAV EXPORTS AND HAS INSTRUCTED YUGOSLAV AMBASSADORS IN EEC COUNTRIES TO APPROACH RESPECTIVE GOVTS AND "PRESS THEM TO UNDERSTAND SERIOUSNESS OF SITUATION" WHICH IS "UNSATISFACTORY ECONOMICALLY AND POLITICALLY." "THEY (EEC) SHOULD BE LESS SELFISH AND IT IS NOT ONLY THE ECONOMIC SITUATION BUT MANY OTHER ASPECTS" THAT ARE INVOLVED. COLANOVIC SAID EEC ACTED "BRUTALLY" WITHOUT CONSULTATION IN IMPOSING BAN ON MEAT IMPORTS WHICH AFFECTS NOT ONLY YUGOSLAV FOREIGN EXCHANGE EARNINGS BUT IS RUINING DOMESTIC PRODUCTION, SPOILING SIX YEARS OF INVESTMENT DEVELOPMENT. COLANOVIC CONCLUDED "IF YUGOSLAVS MUST REDUCE TRADE WITH THE WEST AS RESULT OF EEC RESTRICTIONS, IT IS A CONSEQUENCE FOR WHICH YUGOSLAVIA IS NOT RESPONSIBLE AND THOSE WHO WILL NOT TRADE WITH US HAVE NO RIGHT TO CRITICIZE OR EVEN COMMENT WHEN WE DEVELOP CLOSER RELATIONS WITH EAST."

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ACTION EUR-12

INFO OCT-01 ISO-00 SS-15 SP-02 L-03 INR-07 EB-07 SAJ-01

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6. YUGOSLAV WERE DISAPPOINTED THAT RECENT VISIT OF

EEC PRESIDENT ORTOLI DID NOT PRODUCE CONCRETE RESULTS BUT THERE ARE INDICATIONS THAT YUGOSLAVS BELIEVE ORTOLI WAS NOT AUTHORIZED TO MAKE DECISIONS AT THAT TIME AND HOPE HE WAS SUFFICIENTLY IMPRESSED WITH YUGOSLAV CASE TO TAKE UP THEIR POSITION IN EEC COUNCILS. ORTOLI WAS BRIEFED ON YUGOSLAVIA'S SPECIAL PROBLEMS WITH EEC'S RECENT REMEDIAL MEASURES ON BEEF IMPORTS WHICH ARE NOT SATISFACTORY TO YUGOSLAVIA AND WHICH PLACE YUGOSLAVIA'S MARKET-ORIENTED ECONOMY AT A DISADVANTAGE RELATIVE TO NON-MARKET ECONOMIES. ACCORDING TO FEC MEMBER JANKO SMOLE, YUGOSLAVS ALSO DISCUSSED WITH ORTOLI THEIR DESIRE TO DRAW UP GUIDELINES WITH EEC CONTROLLING JOINT VENTURE INVESTMENT, MANY OF WHICH CURRENTLY INVOLVED SMALL EQUITY CAPITAL COMBINED WITH LARGE FINANCIAL CREDITS AND ARE LITTLE MORE THAN DISGUISED WAYS TO BUY INTO IMPORT MARKET. (SEE BELGRADE A-228 NOTAL)

7. YUGOSLAVS AT SENIOR ECONOMIC LEVELS HAVE SPARED NO OPPORTUNITY TO TELL US THEY WANT GREATLY INCREASED ECONOMIC RELATIONS WITH U.S. TO HELP OFF-SET PROBLEMS WITH EEC. FINANCE SECRETARY CEMOVIC SAID RECENTLY CONFIDENTIAL

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YUGOSLAVIA HAS DECIDED TO GIVE PRIORITY TO DEVELOPING TRADE WITH U.S. WHICH YUGOSLAVIA REGARDS AS MORE RELIABLE THAN THE EEC. CEMOVIC ALSO STRESSED IMPORTANCE OF EXPANDING JOINT VENTURES AND LONG-TERM TECHNICAL COOPERATION BETWEEN TWO COUNTRIES.

8. COMMENT: YUGOSLAVIA'S DETERIORATING TRADE ACCOUNT WITH WESTERN EUROPEAN COUNTRIES HAS CLEARLY REACHED POINT WHERE IT HAS MAJOR POLITICAL AS WELL AS ECONOMIC IMPLICATIONS. CURRENT YUGOSLAV DEIPLOMATIC ACTIVITY SEEMINGLY AIMED AT FORTHCOMING INTER-MINISTERIAL CONFERENCE WITH EEC SCHEDULED FOR JULY. YUGOSLAVS ATTACH GREAT IMPORTANCE TO A BALANCED STRUCTURE OF TRADE AND ECONOMIC ACTIVITIES THAT INCLUDES BOTH WESTERN NATIONS AND COMMUNIST COUNTRIES AS WELL AS INCREASING PORTION FOR LDC'S. THIS TRADE STRUCTURE IS A PILLAR OF YUGOSLAVIA'S POLICY OF POLITICAL INDEPENDENCE AND NON-ALIGNMENT. IN PAST YEARS YUGOSLAVIA'S MARKET-ORIENTED ECONOMY HAS BEEN INCREASINGLY ABSORBED INTO INTERNATIONAL MARKET ECONOMY, CONTRIBUTING TO EXPANDED WESTERN COMMODITY AND CREDIT FLOWS UPON WHICH MUCH OF YUGOSLAVIA'S DOMESTIC DEVELOPMENT PLANS AND CONTINUED CONSUMER PROSPERITY DEPENDS. THE DETERIORATION OF YUGOSLAV EXPORTS TO WESTERN EUROPE, DUE AT LEAST IN PART OF EEC RESTRICTIONS, PLACE IN SOME DOUBT YUGOSLAVIA'S ABILITY

CONTINUE ECONOMIC POLICIES OF PAST. REDUCTION OF EXPORTS IS SUBJECTING CURRENT ACCOUNT TO STRAINS, AND THREATENS TO CAUSE A SLOWDOWN IN WESTERN CREDITS WITHOUT WHICH DOMESTIC DEVELOPMENT AND GROWTH GOALS--SO POLITICALLY IMPORTANT HERE--CANNOT BE MET. CONSEQUENTLY GOY IS UNDERGOING PAINFUL REEXAMINATION OF ITS RELATIONSHIPS WITH EEC WHICH IN FIRST INSTANCE IS TAKING FORM OF DIPLOMATIC ACTIVITY DESIGNED AT MINIMUM TO REMOVE RESTRICTIONS ON YUGOSLAV BEEF EXPORTS AND AT MAXIMUM TO SECURE NON-RECIPROCAL CONCESSIONS BASED ON POLITICAL AS WELL AS ECONOMIC CONSIDERATIONS. YUGOSLAVS CLEARLY WANT THIS DIPLOMATIC EFFORT TO SUCCEED AND TO AVOID FURTHER DECLINE IN OVERALL RELATIONS WITH EEC, BUT IN EVENT THIS IS NOT POSSIBLE, THEY ARE SETTING OUT LIKELY CONSEQUENCES WHICH ARE BASED ON THEIR JUGE-CONFIDENTIAL

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MENT THAT FOR DOMESTIC POLITICAL AND SOCIAL REASONS, THEY CANNOT SACRIFICE NOR SIGNIFICANTLY REDUCE GROWTH PLANS EVEN IF THE COST IS GREATER DEPENDENCE ON EAST AND POLITICAL FRICTION WITH WESTERN EUROPE. FOR REASONS OF POLITICAL BALANCE AND ECONOMIC EFFICIENCY YUGOSLAVIA WANTS TO EXPAND ECONOMIC RELATIONS WITH U.S. THERE IS OPPORTUNITY FOR SUBSTANTIAL EXPANSION IN YUGOSLAV/U.S. ECONOMIC COOPERATION, ESPECIALLY ONCE USG HAS GENERALIZED PREFERENCE SCHEDULES IN PLACE. YUGOSLAVIA'S RELATIVELY ADVANCED ECONOMY MAY BE ABLE TO TAKE ADVANTAGE OF PREFERENCES TO EXPAND EXPORTS, AND YUGOSLAV APPETITE FOR U.S. TECHNOLOGY AND CAPITAL GOODS IS CURBED ONLY BY AVAILABLE CREDIT. AS PRACTICAL MATTER, PROCESS OF EXPANDING RELATIONS WITH U.S. IS NOT, HOWEVER, AT LEAST IN SHORTRUN, LIKELY TO TAKE UP ALL OF SLACK, NOR WILL ONGOING SUCCESSFUL EFFORTS TO INCREASE TRADE WITH LDC'S. THERE IS POSSIBILITY OF YUGOSLAVIA RELUCTANTLY BUT INCREASINGLY TURNING TO EAST AS SECOND BEST ALTERNATIVE FOR EXPORT MARKETS AND SOURCES FOR CREDIT AS A CONSEQUENCE OF INABILITY TO MEET ECONOMIC OBJECTIVES THROUGH CONTINUED EXPANSION OF PARTICIPATION IN WESTERN EUROPEAN ECONOMIES. AS COLANOVIC IMPLIED THIS PROCESS WOULD EVENTUALLY HAVE POLITICAL AS WELL AS ECONOMIC IMPLICATIONS. WHILE YUGOSLAV/EEC RELATIONS HAVE NOT YET REACHED CRISIS POINT, WE SHOULD BE AWARE OF THE SENSITIVE POLITICAL IMPLICATIONS FOR YUGOSLAVIA, AND CONSEQUENTLY FOR U.S. INTERESTS HERE, OF EEC ECONOMIC DECISIONS. FROM POINT OF VIEW OF U.S. POLITICAL INTEREST IN YUGOSLAVIA, ECONOMIC LINKS BETWEEN YUGOSLAVIA AND U.S. AND/OR EEC ARE BASICALLY FUNGIBLE AND IN THIS RESPECT WE BELIEVE IT IN U.S. INTEREST TO ENCOURAGE MORE SYMPATHY WITHIN EEC FOR YUGOSLAV POSITION PARTICULARLY WITH REGARD TO ACTIONS SUCH AS BEEF

EMBARGO. END COMMENT.
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